

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Westland Housing Commission	County Wayne
Fiscal Year End 6/30/06		Opinion Date 10/26/06		Date Audit Report Submitted to State 2/9/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

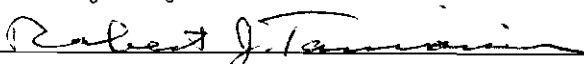
We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Robert J. Tauriainen CPA		Telephone Number 248-476-8784	
Street Address 25140 Lahser Road, Suite 141		City Southfield	State Mi
		Zip 48033	
Authorizing CPA Signature 	Printed Name Robert J. Tauriainen		License Number 1101008083

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management Discussion and Analysis	3
FINANCIAL STATEMENTS	
Statement of Net Assets	9
Statement of Revenues, Expenses, and Changes in Net Assets	10
Statement of Cash Flows	11
Notes To Financial Statements	13
SUPPLEMENTARY DATA	
Financial Data Schedule	20
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	24
Report on Compliance with Requirements Applicable to Each Major Program And Internal Control over Compliance in Accordance with OMB A-133	26
Schedule Of Expenditures Of Federal Awards	28
Summary of Auditor Results,	29
Schedule of Prior Audit Findings,	29
Schedule of Findings and Questioned Costs	29

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Board of Commissioners
Westland Housing
Commission
Westland, Michigan

Department of Housing &
Urban Development
Office of Public Housing
Detroit, Michigan

Independent Auditor's Report

I have audited the accompanying basic financial statements of the Westland Housing Commission, Westland, Michigan, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Westland Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in finding number 1, I was unable to test the service organizations internal controls placed in operation for operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

In my opinion, except for the effects of the matters discussed in the preceding paragraph, the basic financial statements, referred to above present fairly, in all material respects, the financial position of the Westland Housing Commission, as of June 30, 2006, and the results of its operations and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated October 26, 2006 on my consideration of the Westland Housing Commission's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

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Independent Auditor's Report

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board (GASB). I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying Financial Data Schedule and Schedule of Expenditures of Federal awards and other schedules listed in the table of contents are presented for purposes of additional analysis as required by the Department of Housing and Urban Development and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The Financial Data Schedule and Schedule of Expenditures of Federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Certified Public Accountant
October 26, 2006

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

As management of the Westland Housing Commission (WHC), we offer reviewers of the Commission's financial statements this narrative overview and analysis of the financial activities of the WHC for the fiscal year that ended June 30, 2006. We have also incorporated into this report a synopsis of any changes in HUD regulations and policy, as impacted by new congressional legislation and appropriations for the prior fiscal year, and project how these changes will impact the housing commission in the next fiscal period in terms of our general financial activities and provision of affordable housing services.

A — Using the Fiscal 2006 Year End Settlement Statement

1) Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Westland Housing Commission's basic financial statements. Financial statements included in this report were prepared in accordance with GAAP applicable to governmental entities in the United States of America for proprietary fund types.

2) Basic Financial Statements

The basic financial statements are designed to provide readers with a broad overview of the WHC's finances, in a manner similar to a private-sector business. They consist of a Statement of Net Assets and a Statement of Revenues and Expenditures.

The Statement of Net Assets presents information on all the Commission's assets and liabilities, with the difference between the two reported as changes in total assets, total liabilities, and total net assets. Increases or decreases in these areas will serve as a useful indicator of whether the financial position of the WHC is improving or deteriorating. However, these changes must also be analyzed in the context of federal regulatory changes and potential growth opportunities.

The Statement of Revenues and Expenditures presents' information showing "how" the Commission's total assets, liabilities, and net assets changed during the most recent fiscal year. All changes are reported as soon as the underlying event gives rise to the change, regardless of the timing of unrelated cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned, but unused vacation leave).

The basic financial statements report on the WHC's activities. The Housing Commission's primary objective is to provide decent, safe, and sanitary housing to low income and special needs populations. The activities required to reach this objective are supported almost 100% by HUD subsidies and grants.

3) Notes to Financial Statements

The Notes to Financial Statements provide additional information that is essential to get a full understanding of the data provided in the general purpose financial

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

statements. The Notes to Financial Statements can be found in the full audit report after the basic financial statements.

4) Supplemental Information

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non-profit Organizations. The schedule of expenditures of federal awards can also be found in the full audit report.

B – Financial and Operational Highlights for Fiscal 2006

The Westland Housing Commission (WHC) ended fiscal year 2006 with 1039 leased Section 8 housing units out of a total baseline of 1090 units. During fiscal 2006 WHC did not receive any new Annual Contributions Contracts (ACC) from HUD with respect to participating in any new Housing Conversion Actions. At the end of fiscal 2005 WHC had 915 voucher units under lease; at the end of fiscal 2006 the WHC had a total of 1039 units under lease. This represents a growth rate of 13.6% in a one-year period. Other financial highlights are as follows:

- 1) For fiscal year 2006, a total of \$7,228,466 in HUD PHA grants were received. Investment and other income received totaled \$88,799. In fiscal 2006, total current assets increased from \$1,592,020 to \$3,083,391. Maximum annual contributions available increased from \$6,170,715 in 2005 to \$7,228,466 in 2006. Unrestricted net assets (operating reserve) increased from \$385,0349 to \$2,891,107. Both increases were due to an increased number of vouchers under lease.
- 2) Ongoing administrative fees earned totaled \$455,803 for the 2005 fiscal year. For 2006, administrative fees earned totaled \$673,016. There were no preliminary fees earned in fiscal 2006 since no new Housing Conversion Actions were under taken.
- 3) Interest earned on operating reserves increased from \$5,068 in 2005 to \$87,812 in 2006. This was a significant increase and does have an impact on total revenues for the fiscal year from prior years since interest earnings have become a significant percentage of total revenue.

C – The Westland Housing Commission as a Whole

The WHC's Net Asset position will increase or decrease each year depending upon several factors including HUD regulations and policy, the amount of administrative reserves, and any major equipment acquisitions. The WHC does not own land or buildings. It leases space in a city building. The primary equipment owned is one inspection vehicle shared by the entire department, one computer fileserver, and six computer workstations, and office furniture for the housing staff. The WHC shares its executive director with the Department of Community Development, and therefore does not have its own director. This results in tremendous cost savings. The Commission's primary revenue sources are Section 8 Housing Voucher subsidies for HAP payments; tenant utility reimbursements, administrative fees, and an annual Family Self Sufficiency grant, all coming from the Department of Housing and Urban Development. Funds are received monthly from HUD based upon an Annual Consolidated Contract and monthly payment schedule determined at the beginning of the calendar year. Monetary shortfalls due to over leasing or excessive spending on HAP

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

or administrative expenses will no longer be approved or funded by HUD. In addition, housing commission's no longer have the safety net of a formal ACC program reserve account to fund shortfalls in Housing Assistance Payments. The amount of administrative operating reserve to fund shortfalls in administrative expenses varies by housing commission across the country. Westland's administrative reserve is more than adequate, according to current accounting standards. For fiscal 2006, the WHC had earned total administrative fees of \$673,016 and had ongoing administrative expenses of \$518,609.

D – Economic Factors Affecting Next Year's Budget Expenditure and Revenue Considerations

The following factors were considered in preparing the Housing Commission's budget for the fiscal year ending June 30, 2007.

- 1) The outlook for voucher funding, FMR's, and administrative fees has stabilized somewhat from the prior year and no longer looks grim as it did during the 2005-2006 fiscal period. No major cuts were made during 2006. Voucher funding notices for fiscal 2006/2007 or calendar year 2007 should be made available in December of 2007. The WHC sees somewhat restrictive voucher funding conditions for the next two years with possible minor cuts.
- 2) The WHC Family Self Sufficiency program had been a successful and self sustaining program for more than a decade. The WHC has total of (69) participating families and (22) families with escrow accounts as of June 30, 2006. The program has been funded during the past (10) years with HUD grants averaging \$28,000 to \$32,000 annually for case management. The WHC did not receive an FSS Grant in fiscal 2005 and operated the program with funding from its operating reserve. However, the WHC did receive an FSS Grant in the amount of \$32,147 for calendar 2006 and has applied for a grant in calendar 2007 which we anticipate receiving based on our prior expense and the operation of a very successful program. Based upon the current circumstances, it appears the FSS Program will be continued for the next couple of years.
- 3) Although inflation is still low and appears to be under control, wage costs for housing staff will continue to put pressure on the commission's annual operating budget. During the past two years the commission has added additional vouchers as a way of increasing revenues to offset these increasing wage costs. In addition, the management at WHC has tried to develop new methods of administering more voucher units without a commensurate increase in wage costs. Should voucher administrative expenses exceed revenues during the next several fiscal periods, the Westland Housing Commission will be able to utilize its "unrestricted net assets" to cover minimal to moderate operating deficits for several years. Hopefully by then, Congress and HUD will adjust total voucher funding to reflect the actual cost of administering this very important national subsidized housing program.

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

Schedule A – Statement of Net Assets

	Year Ended 06/30/2005	Year Ended 06/30/2006
ASSETS		
CURRENT ASSETS		
CASH (UNRESTRICTED)	\$1,592,020	\$3,083,391
ACCOUNTS & NOTES RECEIVABLE	0	0
<i>TOTAL CURRENT ASSETS</i>	\$1,592,020	\$3,083,391
NONCURRENT ASSETS		
FURNITURE, EQUIPMENT, & MACHINERY – ADMINISTRATION	\$104,186	\$82,279
ACCUMULATED DEPRECIATION	(\$75,826)	(\$57,096)
TOTAL FIXED ASSETS, NET OF ACCUMULATED DEPRECIATION	\$28,360	\$25,183
<i>TOTAL NONCURRENT ASSETS</i>	\$28,360	\$25,183
TOTAL ASSETS	\$1,620,380	\$3,108,574
LIABILITIES		
<i>TOTAL CURRENT LIABILITIES</i>	\$1,157,455	\$114,873
<i>TOTAL NONCURRENT LIABILITIES</i>	\$49,216	\$77,411
TOTAL LIABILITIES	\$1,206,671	\$192,284
NET ASSETS		
INVESTED IN CAPITAL ASSETS (Net of Debt)	\$28,360	\$25,183
UNRESTRICTED NET ASSETS	\$385,349	\$2,891,107
TOTAL NET ASSETS	\$413,709	\$2,916,290
TOTAL LIABILITIES & NET ASSETS	\$1,620,380	\$3,108,574

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

Schedule B –Statement of Revenues and Expenditures

	Year Ended 06/30/2005	Year Ended 06/30/2006
REVENUE		
HUD PHA GRANTS	\$5,049,861	\$7,228,466
INTEREST EARNED ON OPERATING REVENUE	\$5,068	0
INTEREST EARNED ON GENERAL FUND	\$5,000	87,812
OTHER REVENUE	\$286	987
TOTAL REVENUE	\$5,060,215	\$7,317,265
EXPENSES		
ADMINISTRATIVE SALARIES	\$201,677	\$197,936
AUDITING FEES	\$2,420	\$2,420
COMPENSATED ABSENCES	\$3,356	\$11,256
EMPLOYEE BENEFIT CONTRIBUTIONS – ADMIN	\$135,962	\$139,140
OTHER OPERATING	\$126,436	\$141,196
TENANT SERVICES – FSS	\$10,691	\$26,661
TOTAL OPERATING EXPENSES	\$480,542	\$518,609
TENANT HOUSING ASSISTANCE PAYMENT	\$4,517,681	\$5,316,274
DEPRECIATION EXPENSE	\$10,674	\$12,132
TOTAL EXPENSES	\$5,008,897	\$5,847,015
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$51,318	\$1,470,250

Westland Housing Commission
Management's Discussion and Analysis
June 30, 2006

E – Statutory Authority of Budget Documents

The Annual Contributions Contract portion of the budget was prepared in accordance with accounting procedures prescribed by HUD. The WHC operating budget was prepared in accordance with standards set by the City of Westland finance department. The operating budget is approved annually by the Westland Housing Commission, although, this budget has no legal stature and is used only as a management tool.

F – Capital Assets and Debt Administration

- 1) As of June 30, 2006, the Commission's total assets were \$3,108,574, all of which is in the Section 8 Housing Program, which consists of administering Housing Choice Voucher contracts. Of this amount, \$3,083,391 consisted of unrestricted cash. A total of \$82,279 or \$25,183 (net of accumulated depreciation) was in equipment, computers, and furniture.

- 2) Short Term and Long Term Debt

The Westland Housing Commission does not have any short term or long-term debt.

G – Infrastructure Assets

This section is not applicable to the Westland Housing Commission since the WHC does not own any infrastructure assets.

H – Contacting the Westland Housing Commission with Respect to the Commission's Financial Management.

The Management Discussion and Analysis is designed to provide a general overview of the WHC's finances for the general public in an easy to read format. Questions concerning any of the information provided in this report or requests for additional financial information must be submitted in written form to Executive Director, Westland Housing Commission, 32715 Dorsey Rd., Westland, MI 48186.

Westland Housing Commission
Statement Of Net Assets
June 30, 2006

Assets

Current assets:	
Cash and cash equivalents	3,083,391
Total current assets	<u>3,083,391</u>
Noncurrent assets:	
Capital assets:	
Buildings and equipment	82,279
Less accumulated depreciation	<u>(57,096)</u>
Capital assets, net	25,183
Total assets	<u><u>3,108,574</u></u>

Liabilities

Current liabilities:	
Accounts payables	112,670
Compensated absences	<u>2,203</u>
Total current liabilities	<u>114,873</u>
Noncurrent liabilities:	
Compensated absences	19,827
FSS escrow and other	<u>57,584</u>
Total liabilities	<u>192,284</u>

Net Assets

Invested in capital assets, net of related debt	25,183
Unrestricted	<u>2,891,107</u>
Total net assets	<u>2,916,290</u>
Total liabilities and net assets	<u><u>3,108,574</u></u>

Westland Housing Commission
Statement of Revenues, Expenses and Changes in Net Assets
June 30, 2006

Operating revenues:	
Investment income	87,812
Federal sources	7,228,466
Miscellaneous	987
Total operating revenues	<u>7,317,265</u>
Operating expenses:	
Administrative	517,889
Tenant services	32
General expenses	688
Housing assistance payments	5,316,274
Total operating expenses	<u>5,834,883</u>
Operating income (loss)	<u>1,482,382</u>
Nonoperating expenses:	
Depreciation	12,133
Total nonoperating expenses	<u>12,133</u>
Total expenses	<u>5,847,016</u>
Change in net assets	1,470,250
Total net assets - beginning	413,709
Prior period adjustments	1,032,331
Total net assets - ending	<u><u>2,916,290</u></u>

See Accompanying notes to financial statements

Westland Housing Commission
Statement of Cash Flows
June 30, 2006

Cash flows from operating activities:

Other operating cash receipts	987	
Cash paid for HAP's	(5,316,274)	
Cash paid for operating expenditures	(143,007)	
Cash paid to employees for services	<u>(375,723)</u>	
Net cash used in operating activities		(5,834,016)

Cash flows from noncapital financing activities:

Operating grants received	7,228,466	
Sale (purchase) of fixed assets	(8,955)	
Net increase (decrease) in FSS escrow	<u>18,065</u>	
Net cash provided by noncapital financing activities		7,237,575

Cash flows from investing activities:

Interest received (paid)	<u>87,812</u>	
Net cash (used) provided in investing activities		<u>87,812</u>
Net increase (decrease) in Cash and cash equivalents		<u>1,491,371</u>
Beginning of period		<u>1,592,020</u>
End of period		<u>3,083,391</u>

Westland Housing Commission
Statement of Cash Flows
June 30, 2006

**Reconciliation of Operating
Income to Net Cash used in
Operating Activities**

Operating Income (loss)	1,482,382
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:	
Interest received	(87,812)
Grants	(7,228,466)
Increase (decrease) in	
Accounts payable:	
Trade	(23,574)
Accrued liabilities:	
Wages and payroll taxes	12,198
Compensated absences	<u>11,256</u>
Total adjustments	<u>(7,316,398)</u>
Net cash provided by (used in) operating activities -	<u><u>(\$5,834,016)</u></u>

See Accompanying notes to financial statements

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

The Westland Housing Commission ("The Authority") is a non-profit corporation which was organized under the laws of the State of Michigan to provide Low-Rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development and other Federal Agencies.

Section 8 Housing - The objectives of the program is to help low-income families obtain decent, safe, and sanitary housing through a system of rental subsidies. HUD entered into a Annual Contributions Contract (ACC) with the Authority. The Authority enters into a housing assistance payments contract with private owners. The owners rent housing to eligible low-income families who typically pay the highest of 30 percent of adjusted income, 10 percent of gross income, or the portion of welfare assistance designated to meet housing costs for rent. The remaining portion of the rent for the unit is paid to the owner by the Authority in a housing assistance payment.

The Authority policy is to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the authoritative standard-setting body for the establishment of governmental accounting and financial reporting principles. The more significant of these accounting policies follow.

A. Reporting Entity

All significant activities and organizations on which the Authority exercises oversight responsibility have been included in the Authority's financial statements, for the year ended June 30, 2006. This report includes all of the services provided by the Authority to residents within its boundaries. In evaluating the Authority's reporting entity, in accordance with GASB Statement No. 14, the Authority has included all organizations that make up the Authority's legal entity.

The following criteria regarding manifestation of oversight were considered by the Authority in its evaluation of the Authority organizations and activities:

Financial interdependency - The Authority is responsible for its debts and is entitled to surpluses. No separate agency receives a financial benefit nor imposes a financial burden on the Authority.

Appointment of the government authority - The Authority is governed by a Board of Commissioners, appointed by the local government, and has governance responsibilities over all activities related to Low-Rent housing within that community.

Designation of the Executive Director - The Board of Commissioners have decision making responsibility and the power to designate a Executive Director who

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

administers Authority policies.

Ability to significantly influence operations - The Board of Commissioners have the responsibility to significantly influence operations. This authority includes, but is not limited to, adoption of the budget, control over all assets, including facilities and properties, signing contracts, and developing the programs to be provided.

Accountability of fiscal matters - The responsibility and accountability over all funds is vested in the Board of Commissioners and its designated Executive Director.

Component Units - Consistent with applicable guidance, the criteria used by the Authority to include component units within its reporting entity are financial accountability and the nature and significance of the relationship. At June 30, 2006, the Authority had no component units which met that criteria.

B. Fund Type

The Authority uses enterprise fund accounting to account for its financial position and results of operations. The enterprise fund type was used because the Authority operations are financed and operated in a manner similar to private business enterprises - where the intent of the Authority is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered through user charges.

C. Measurement Focus and Basis of Accounting

The Authority uses the economic resources measurement focus. Accordingly, all assets and liabilities are recorded on the balance sheet. The reported net assets is segregated into capital assets net of related debt, unrestricted net assets and restricted net assets. Each component of net assets may be used to meet current obligations. Restricted net assets are subject to constraints externally imposed and are reduced by related liabilities. Operating statements present increases (revenues) and decreases (expenses) in net assets. The full accrual basis of accounting is used. Revenues are recognized when they are earned and become measurable and expenses are recognized when incurred, if measurable.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Housing Authority follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Authority uses a single Enterprise Fund to maintain its financial records on an accrual basis.

D. Fixed Assets

The accounting and reporting treatment applied to the fixed assets associated with the financial statements are determined by the Authority's measurement focus and are accounted for in the Authority's enterprise fund.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet. Depreciation is provided over the estimated useful lives using the straight-line method.

E. Cash Equivalents

For purposes of reporting cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less are considered to be cash equivalents.

F. Investments

Investments are reported at fair value. Investment securities are normally held to mature at par value and adjustments are made to the investment portfolio to reflect increases / (decreases) in gains made.

G. Receivables

All receivables are shown net of an allowance for uncollectible amounts.

H. Rental Income

A percentage of tenant income, as determined by HUD is used to determine income from rents and may not represent fair market rent.

I. Income Taxes

No provision for income taxes is recorded in the accounts as the Authority is a non-profit, tax exempt entity under the Internal Revenue Code. The Authority is

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

not subject to Federal or State income taxes, nor is it required to file Federal and State income tax returns.

J. Deferred Revenue

HUD Grants, operating subsidy, HAP subsidy and tenants rents are recognized in the applicable program year.

K. Budgets

An operating budget is adopted each year by the Authority and depending on certain performance indicators, may or may not be approved by the Department of Housing and Urban Development.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Pensions

Plan Description. The Westland Housing Commission contributes to the Municipal Employees Retirement System of Michigan (MERS), a cost-sharing multiple-employer defined benefit pension plan administered by the MERS Retirement Board. MERS provides retirement benefits to plan members. The MERS Retirement Board has the authority to establish and amend benefit provisions. The Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan or by calling 1-517-703-9030.

Funding Policy. The Westland Housing Commission is required to contribute at an actuarially determined rate depending on the benefit plan adopted. The current PHA rate is 42% of annual covered payroll. The contribution requirements for the Westland Housing Commission are established and may be amended by the MERS Retirement Board. The Westland Housing Commission's contribution to MERS for the year ending June 30, 2006, June 30, 2005 and June 30, 2004 were \$83,111.29, \$74,106.41 and \$55,469.40 respectively and was equal to the required contributions for those years. At June 30, 2006 there were 5 plan members.

N. Vacation Pay:

The Authority provides leave benefits for its employees based on comparable practices by local public bodies. The personnel policy provides that, upon termination, employees will be paid all accumulated annual leave at their rate

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

of pay upon termination.

At June 30, 2006 the Authority is contingently liable to employees for accumulated unpaid vacation pay in the amount of \$22,030.38. This amount has been recorded in the financial statements. Amounts not expected to be paid within the next fiscal year are classified as long term liabilities.

O. Insurance and Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

The Authority continues to carry commercial insurance for other risks of loss. There has been no significant reduction in insurance coverage from the coverage in the prior year.

P. Economic Dependency

The Authority receives approximately 99% of its revenues from the U.S. Department of Housing and Urban Development (HUD). If the amount of revenues received from HUD falls below critical levels, the Authority's operations could be adversely affected.

Q. Prior Period Adjustments

The Authority's prior period adjustments are as follows:

Section 8 Housing Choice Voucher -

Adjustment of annual contribution - \$1,032,331.00 credit

(2) Cash and Investments:

Cash and investments are stated at cost, which approximates fair value, and at June 30, 2006 consisted of the following:

<u>Account</u>	<u>Sec 8 HCVo</u>
Cash - General Fund (Development and/or Operation)	<u>3,083,391.30</u>
Total Cash	<u>\$3,083,391.30</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Public Housing Authority's deposits may not be

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

returned to it.

The Annual Contributions Contract (ACC) requires the Housing Authority to deposit and invest all program funds for projects under an Annual Contribution Contract in accordance with the terms of a General Depository Agreement (HUD-51999) entered into between the Financial Institution and the Public Housing Authority which requires that all deposits and accounts of the Depository shall continue to be insured by the Federal Deposit Insurance Corporation (FDIC). Any portion of the Public Housing Authority's Funds not insured shall be fully (100%) and continuously collateralized with specific and identifiable (not pooled) U.S. Government securities prescribed by HUD. Such securities shall be owned by the depository and the manner of collateralization shall provide the Housing Authority with a continuing perfected security interest for the full term of the deposit.

The Public Housing Authority's investments do not meet these requirements. The Housing Authority's investments are not collateralized by specific and identifiable U.S. government securities which provides a continuing perfected security interest in the name of the Public Housing Authority.

As of June 30, 2006, \$2,094,732.90 of the Public Housing Authority's bank balance was exposed to a custodial credit risk by being uninsured and not collateralized.

Concentration of Credit Risk. Neither the Department of Housing and Urban Development or the Public Housing Authority places any limit on the amount the Public Housing Authority may invest in any one Depository. More than 5 percent of the Public Housing Authority's investments are with specific depository's. 100% of the Public Housing Authority's cash and investments are with the JPMorgan/Chase Bank.

(3) Land, Structures and Equipment:

Development, Capital Fund Improvements and Land, Structures and Equipment balances at June 30, 2006 consisted of the following:

<u>Account</u>	<u>Sec 8 HCVo</u>
Furniture, Equipment & Machinery - Admin.	82,278.84
Accumulated Depreciation	<u>(57,096.00)</u>
Total Capital Assets, net	<u>\$25,182.84</u>

Westland Housing Commission
Notes To Basic Financial Statements
June 30, 2006

Capital asset activity for the year ended June 30, 2006 was as follows:

<u>Account</u>	<u>Begin Balance</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Ending Balance</u>
Furniture, Equipment & Machinery - Admin.	104,186.02	8,955.41	(30,862.59)	82,278.84
Accumulated Depreciation	<u>(75,826.01)</u>	<u>(12,132.58)</u>	<u>30,862.59</u>	<u>(57,096.00)</u>
Total Capital Assets, net	<u>28,360.01</u>	<u>(3,177.17)</u>	<u>.00</u>	<u>25,182.84</u>

The PHA capitalizes items costing at least \$750.00 with a life of more than one year.

Depreciation is computed using the straight line method as follows:

Computers	3 years
Office Equipment	7 years
Automobiles	5 years

(4) Accounts Payable:

Accounts payable at June 30, 2006 consist of the following:

<u>Account</u>	<u>Sec 8 HCVo</u>
Accounts Payable - Vendors and Contractor	18,015.40
Accounts Payable - Payrolls, Deductions & Contributions	<u>94,654.91</u>
Total Accounts Payable	<u>\$112,670.31</u>

Westland Housing Commission
Financial Data Schedule
June 30, 2006

Section 8 Housing Choice Voucher Program 14.871		Account Description	
Line			
	ASSETS:		
	CURRENT ASSETS:		
	Cash:		
111	Cash - unrestricted	3,083,391	
112	Cash - restricted - modernization and development	-	
113	Cash - other restricted	-	
114	Cash - tenant security deposits	-	
100	Total cash	<u>3,083,391</u>	
	Accounts and notes receivables:		
121	Accounts receivable - PHA projects	-	
122	Accounts receivable - HUD other projects	-	
124	Accounts receivable - other government	-	
125	Accounts receivable - miscellaneous	-	
126	Accounts receivable- tenants - dwelling rents	-	
126.1	Allowance for doubtful accounts - dwelling rents	-	
126.2	Allowance for doubtful accounts - other	-	
127	Notes and mortgages receivable- current	-	
128	Fraud recovery	-	
128.1	Allowance for doubtful accounts - fraud	-	
129	Accrued interest receivable	-	
120	Total receivables, net of allowances for doubtful accounts	<u>-</u>	
	Current investments		
131	Investments - unrestricted	-	
132	Investments - restricted	-	
142	Prepaid expenses and other assets	-	
143	Inventories	-	
143.1	Allowance for obsolete inventories	-	
144	Interprogram - due from	-	
146	Amounts to be provided	-	
150	TOTAL CURRENT ASSETS	<u>3,083,391</u>	
	NONCURRENT ASSETS:		
	Fixed assets:		
161	Land	-	
162	Buildings	-	
163	Furniture, equipment & machinery - dwellings	-	
164	Furniture, equipment & machinery - administration	82,279	
165	Leasehold improvements	-	
166	Accumulated depreciation	<u>(57,096)</u>	
160	Total fixed assets, net of accumulated depreciation	<u>25,183</u>	
	Other non-current assets:		
171	Notes and mortgages receivable - non-current	-	
172	Notes and mortgages receivable-non-current - past due	-	
174	Other assets	-	
175	Undistributed debits	-	
176	Investment in joint ventures	-	
180	TOTAL NONCURRENT ASSETS	<u>25,183</u>	
190	TOTAL ASSETS	<u>3,108,574</u>	
	LIABILITIES AND EQUITY:		
	Liabilities:		

Westland Housing Commission
Financial Data Schedule
June 30, 2006

		Section 8 Housing Choice Voucher Program 14,871
Account Description		
Current Liabilities:		
311	Bank overdraft	-
312	Accounts payable < 90 days	18,015
313	Accounts payable > 90 days past due	-
321	Accrued wage/payroll taxes payable	94,655
322	Accrued compensated absences	2,203
324	Accrued contingency liability	-
325	Accrued interest payable	-
331	Accounts Payable - HUD PHA Programs	-
332	Accounts Payable - PHA projects	-
333	Accounts payable - other government	-
341	Tenant security deposits	-
342	Deferred revenue	-
343	Current portion of L-T debt - capital projects	-
344	Current portion of L-T debt - operating borrowings	-
345	Other current liabilities	-
346	Accrued liabilities - other	-
347	Interprogram - due to	-
310	TOTAL CURRENT LIABILITIES	114,873
NONCURRENT LIABILITIES:		
351	Long-term debt, net of current - capital projects	-
352	Non-current liabilities-compensated absence	19,827
353	Non-current liabilities-FSS & other	57,584
350	TOTAL NONCURRENT LIABILITIES	77,411
300	TOTAL LIABILITIES	192,284
NET ASSETS:		
501	Investment in general fixed assets	-
Contributed Capital:		
502	Project notes (HUD)	-
503	Long-term debt - HUD guaranteed	-
504	Invested in Net Assets Net of Related Debt	25,183
505	Other HUD contributions	-
507	Other contributions	-
508	Total Invested in Net Assets Net of Related Debt	25,183
Restricted Net Asset Balance:		
509	Restricted for operating activities	-
510	Restricted for capital activities	-
511	Total Restricted Net Assets	-
512	Total Unrestricted Net Assets	2,891,107
513	TOTAL NET ASSETS	2,916,290
600	TOTAL LIABILITIES AND NET ASSETS	3,108,574
REVENUE:		
703	Net tenant rental revenue	-
704	Tenant revenue - other	-
705	Total tenant revenue	-
706	HUD PHA Operating Grants	7,228,466
706.1	Capital Grants	-
708	Other government grants	-
711	Investment income - unrestricted	87,812
712	Mortgage interest income	-
714	Fraud recovery	987
715	Other revenue	-
716	Gain or loss on sale of fixed assets	-
720	Investment income - restricted	-

Westland Housing Commission

Financial Data Schedule

June 30, 2006

		Section 8 Housing Choice Voucher Program 14.871
Account Description		
700	TOTAL REVENUE	7,317,265
EXPENSES:		
Administrative		
911	Administrative salaries	248,781
912	Auditing fees	2,420
913	Outside management fees	-
914	Compensated absences	11,256
915	Employee benefit contributions- administrative	139,140
916	Other operating- administrative	116,292
Tenant services		
921	Tenant services - salaries	-
922	Relocation costs	-
923	Employee benefit contributions- tenant services	-
924	Tenant services - other	32
Utilities		
931	Water	-
932	Electricity	-
933	Gas	-
934	Fuel	-
935	Labor	-
937	Employee benefit contributions- utilities	-
938	Other utilities expense	-
Ordinary maintenance & operation		
941	Ordinary maintenance and operations - labor	-
942	Ordinary maintenance and operations - materials & other	-
943	Ordinary maintenance and operations - contract costs	-
945	Employee benefit contributions- ordinary maintenance	-
Protective services		
951	Protective services - labor	-
952	Protective services- other contract costs	-
953	Protective services - other	-
955	Employee benefit contributions- protective services	-
General expenses		
961	Insurance premiums	-
962	Other general expenses	688
963	Payments in lieu of taxes	-
964	Bad debt - tenant rents	-
965	Bad debt- mortgages	-
966	Bad debt - other	-
967	Interest expense	-
968	Severance expense	-
969	TOTAL OPERATING EXPENSES	518,610
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	6,798,656
971	Extraordinary maintenance	-
972	Casualty losses - non capitalized	-
973	Housing assistance payments	5,316,274
974	Depreciation expense	12,133
975	Fraud losses	-
976	Capital outlays- governmental funds	-
977	Debt principal payment- governmental funds	-
978	Dwelling units rent expense	-
900	TOTAL EXPENSES	5,847,016

Westland Housing Commission
Financial Data Schedule
June 30, 2006

Account Description		Section 8 Housing Choice Voucher Program 14.871
OTHER FINANCING SOURCES (USES)		
1001	Operating transfers in	-
1002	Operating transfers out	-
1003	Operating transfers from/to primary government	-
1004	Operating transfers from/to component unit	-
1005	Proceeds from notes, loans and bonds	-
1006	Proceeds from property sales	-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	1,470,250
MEMO ACCOUNT INFORMATION:		
1101	Capital contributions	-
1102	Debt principal payments - enterprise funds	-
1103	Beginning Net Assets	413,709
1104	Prior period adjustments and Net Asset transfers	1,032,331
1105	Changes in compensated absence liability	-
1106	Changes in contingent liability balance	-
1107	Changes in unrecognized pension transition liability	-
1108	Changes in special term/severance benefits liability	-
1109	Changes in allowance for doubtful accounts - dwelling rents	-
1113	Maximum annual contributions commitment (per ACC)	-
1114	Prorata maximum annual contributions applicable to a period of less than twelve months	-
1115	Contingency reserve, ACC program reserve	-
1116	Total annual contributions available	-
1120	Unit months available	12,169
1121	Number of unit months leased	11,547

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Commission
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Office of Public Housing
Detroit, Michigan

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

I have audited the financial statements of the Westland Housing Commission as of and for the year ended June 30, 2006 and have issued my report thereon dated October 26, 2006 which opinion was qualified because of the limitation of the scope of my audit. Except as discussed in the following paragraph, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

As discussed in finding number 1, I was unable to test the service organizations internal controls placed in operation for operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

Internal Control Over Financial Reporting - In planning and performing my audit, I considered the Westland Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Westland Housing Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as finding # 1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described above is a material weakness.

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Detroit, Michigan

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Westland Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
October 26, 2006

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Compliance - I have audited the compliance of the Westland Housing Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The Westland Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Westland Housing Commission's management. My responsibility is to express an opinion on the Westland Housing Commission's compliance based on my audit.

Except as discussed in the following paragraph, I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred.

An audit includes examining, on a test basis, evidence about the Westland Housing Commission's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the Westland Housing Commission's compliance with those requirements. As discussed in finding number 1, I was unable to test the service organizations internal controls placed in operation for operating effectiveness; nor was I able to satisfy myself by other auditing procedures.

In my opinion, except for the matters discussed in the preceding paragraph, the Westland Housing Commission has complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2006. The results of my auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

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Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

Internal Control Over Compliance - The management of the Westland Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Westland Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Westland Housing Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in finding number 1 in the accompanying schedule of findings and questioned costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that the reportable condition described is a material weakness.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant
October 26, 2006

Westland Housing Commission
Schedule of Expenditures of Federal Awards
June 30, 2006

<u>Federal Grantor and Program Title</u>	<u>FFA Amounts</u>
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>	
<u>Lower Income Housing Assistance Program</u> <u>Section 8 Housing Choice Vouchers</u>	
CFDA No. - 14.871 Pass-Through Grantor's Number - N/A Program Expenditures	<u>7,228,466</u>
<u>TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT EXPENDITURES</u>	<u>7,228,466</u>
<u>TOTAL FEDERAL FINANCIAL ASSISTANCE</u>	<u>\$7,228,466</u>

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance and federal cost reimbursement Contracts of the Westland Housing Commission. The Westland Housing Commission receives Federal awards directly from Federal agencies.

Federal program expenditures, included in the accompanying schedule, are presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A133, Audits of States, Local Governments, and Non-Profit Organizations.

(2) Major Programs

Major programs are identified in the Summary of Auditor's Results section of the Schedule of Findings and Questioned Costs.

Summary of Auditor Results,
Schedule of Prior Audit Findings,
Schedule of Findings and Questioned Costs

Financial Statement

Type of auditor's report issued: qualified
Internal control over financial reporting
Material weakness(es) identified? Finding reported
Reportable condition(s) identified that are not considered to be material weaknesses?
None reported
Noncompliance material to financial statements noted? None reported

Federal Awards

Internal control over major programs:
Material weakness(es) identified? Finding reported
Reportable condition(s) identified that are not considered to be material weaknesses?
None reported
Type of auditor's report issued on compliance for major programs: qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Finding reported
Major programs:
14.871 Section 8 Housing Choice Voucher
Dollar threshold used to distinguish between type A and type B program: \$300,000.00
Auditee qualified as low-risk auditee? no

Summary Schedule Of Prior Audit Findings

The audit report for the period ended June 30, 2005 contained two findings.

<u>Fiscal</u> <u>Year</u>	<u>Finding</u> <u>Number</u>	<u>CFDA</u>	<u>Finding</u>	<u>Comments</u>
2005	05-1	14.871	Service Organization Internal Control	This finding is repeated
2005	05-2	14.871	Family Self Sufficiency	This finding is cleared

Findings and Questioned Costs

Financial Statement Findings

There are financial statement findings reported. Finding Number 1

Findings Related to Federal Awards

There are findings related to Federal Awards reported. Finding Number 1

<u>Program</u>	<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
<u>Section 8 Housing Choice 14.871</u>	<p><u>Finding No. 1</u></p> <p><u>The Understanding Of The Service Organizations Internal Controls Was Not Tested – Scope Limitation Repeat Finding</u></p> <p>Professional standards require the PHA Auditor to obtain an understanding of the controls in place by the service organization whose services were part of the PHA's information system.</p> <p>Statement on Auditing Standards 94 (SAS 94) and Office of Management and Budget Circular A-133 (OMB A-133) require the testing of those controls. The required testing was not performed. This testing of controls is often referred to as a SAS 70 type II audit.</p> <p>HUD has suggested that the PHA auditor is responsible for the internal control audit performed at the Service Organization.</p> <p>Neither the PHA nor the Service Organization want to incur the additional audit costs necessary to have the service organizations controls tested.</p> <p>To illustrate the SAS 70 audit costs under 2 different scenarios –</p> <p>Illustrative Facts - A large fee accountant who services 300 PHA's has 6 offices and would require the majority of its clients to travel over 1,000 miles to visit its offices.</p> <p>Example 1 – PHA responsible for the additional audit (SAS 70) costs.</p> <p>Having the PHA incur the additional audit costs in this illustration would</p>	<u>None</u>

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
------------------------------	-------------------------

<u>Finding No. 1</u>	<u>None</u>
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The Understanding Of The Service Organizations Internal Controls Was Not Tested – Scope Limitation Repeat Finding

cost HUD and the taxpayers about \$18,000,000. This was calculated based on a figure of \$10,000 per audit, per office, multiplied by 300 PHA's.

Example 2 – Service Organization responsible for the additional audit (SAS 70) costs.

Having the Service Organization incur the additional audit costs in this illustration would cost HUD and the taxpayers about \$60,000. This was calculated based on a figure of \$10,000 per audit, per office divided by 300 PHA's. The Service Organization would probably build in an overhead charge of \$200 per PHA to offset the costs.

HUD does not require Service Organizations to obtain SAS 70 audits thereby placing the responsibility on the PHA's and potentially wasting millions of dollars in additional audit fees.

Other items to consider in having the PHA auditor perform the required SAS 70 audits.

1. SAS 70 requires that the testing of controls include entering test data into the fee accountant's computer and evaluating output. Testing of the fee accountant's computer, as well as many other SAS 70 procedures requires the SAS 70 auditor to have a

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
-------------------------------------	------------------------------------

<u>Finding No. 1</u>	<u>None</u>
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**The Understanding Of The Service
Organizations Internal Controls
Was Not Tested – Scope Limitation
Repeat Finding**

- specialized knowledge and extensive background. This is one reason that a \$10,000 estimated audit fee may be low.
2. Many PHA auditors do not possess the specialized computer background or knowledge required of SAS 70. A consultant may be needed to accomplish the required computer testing. This would result in additional audit fees.
 3. Testing of the fee accountant's computer requires that the testing be performed at the fee accountant's office.
 4. The locations of many fee accounting firms require travel of over 1000 miles. To require the PHA auditor to travel these great distances to test controls, at the fee accountant's office would add additional costs.
 5. Some large fee accounting firms service over a 100 PHA's. This would mean that over 100 PHA auditors would be required to visit one fee accountant's office to perform the same required SAS 70 testing. The fee accountant may be reluctant to allow 100 PHA auditors to disrupt their business.

As I have illustrated, it is more practical and cost efficient for the fee accountant to obtain one SAS 70 audit rather than having the PHA auditor perform these required procedures, which would be

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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<u>Finding No. 1</u>	
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	<u>None</u>
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The Understanding Of The Service Organizations Internal Controls Was Not Tested – Scope Limitation Repeat Finding

duplicated needlessly, and thus waste taxpayers money.

SAS 94 states that when assessing the effectiveness of the design and operation of controls in complex IT environments, it is necessary for the auditor to test these controls. The decision to test controls is not related to the size of the firm but to the complexity of the IT environment.

HUD has stated in their response to prior audit findings that the (PHA) auditor must perform additional procedures to obtain an understanding of the fee accountant's system of internal control.

I must explain that obtaining an understanding of the system of internal control has never been a problem. Internal control questionnaires and Service Organization procedures manuals and flow charts are examples of obtaining the understanding.

The problem with this audit procedure is how the required testing of that understanding of the fee accountant's system of internal control is to take place. Neither the Fee Accountant nor the PHA is cooperating to insure that the testing takes place. This lack of cooperation will result in a scope limitation and a qualified audit opinion.

<u>Finding/Noncompliance</u>	<u>Questioned Costs</u>
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<u>Finding No. 1</u>	<u>None</u>
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The Understanding Of The Service
Organizations Internal Controls
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Recommendation

If HUD continues to suggest that the PHA auditors be responsible for the SAS 70 testing requirement, then I would recommend that HUD instruct the PHA to obtain additional SAS 70 audit bids when requesting proposals for their regular audit. I would also recommend that HUD include in their instructions that internal controls need to be tested at the fee accountant's office.

PHA Reply and Corrective Action Plan

We will follow HUD's instructions.